

MULTIMEDIA



UNIVERSITY

STUDENT IDENTIFICATION NO.

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# MULTIMEDIA UNIVERSITY

## FINAL EXAMINATION

TRIMESTER 2 2016/2017

**BAC 3624 – ADVANCED AUDITING**  
(All sections / Groups)

25 FEBRUARY 2017  
(9.00 a.m. to 12.00 p.m.)  
(3 Hours)

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### INSTRUCTIONS TO STUDENTS

1. This Question paper consists of 4 pages with 5 Questions only.
2. Attempt **ALL FIVE** questions. All questions carry equal marks and the distribution of the marks for each question is given.
3. Please write all your answers in the Answer Booklet provided.

**QUESTION 1**

Your client, Bernas Wawasan Sdn Bhd has requested your firm to conduct an audit of their database system. Through previous work you know that the system includes a centralised database shared by all users. Access to the database is directly by the users through remote terminals and is controlled by the database software system. The IT department includes a manager of operations and a manager of computer programming, both of whom report to the IT director.

Your preliminary understanding of the database system includes the following points:

- i. There are no restrictions regarding the type of transaction or access to the online terminals.
- ii. All users and IT personnel have access to the extensive system documentation.
- iii. Before entering into the user authorisation table, user passwords and access codes are established by user management and approved by the manager of computer programming.
- iv. The manager of computer programming establishes and controls the database directory. Users approve any changes in data definition.
- v. User requests for data are validated by the system against a transactions-conflict matrix to ensure that data is transmitted only to authorised users.
- vi. System access requires the users to input their passwords, and terminal activity logs are maintained.
- vii. Input data are edited for reasonableness and completeness, transaction control totals are generated, and transaction logs are maintained.
- viii. Processing control totals are generated and reconciled to changes in the database.
- ix. Output is reconciled to transaction and input control totals. The resulting reports are printed and placed in a bin outside the IT room for pickup by the users at their convenience.
- x. Backup copies of the database are generated daily and stored in the file library area, access to which is restricted to IT personnel.

**Required:**

- (a). From the results of your preliminary review, describe five controls in the system. (5 marks)
- (b). List specific audit steps you would include in your audit programme to determine whether the transaction input is properly authorised. (10 marks)
- (c). Evaluate the relative strengths of the general and application controls for the database system. (5 marks)

**(Total : 20 marks)**

**Continued....**

**QUESTION 2**

Azmi is the audit senior in charge for the audit of Mirzarii Maju Sdn Bhd. He has calculated a few ratios on the company's financial statement to understand the client's business, assess the risk of financial failure and for other relevant reasons.

Ratio	Year 2016	Year 2015	Year 2014	Year 2013	Year 2012
Current ratio	2.00	2.14	2.26	2.38	2.55
Quick ratio	0.76	1.76	1.44	1.77	1.84
Times interest earned	3.50	3.00	3.24	6.55	6.78
Accounts receivable turnover	3.89	4.36	4.10	4.46	5.55
Days to collect receivables	91.54	75.45	89.02	67.59	65.18
Inventory turnover	1.45	1.70	2.68	3.45	3.36
Days to sell inventory	224.40	197.45	136.19	110.45	120.55
Net sales divided by tangible assets	0.76	0.64	0.73	0.56	0.67
Profit margin	0.09	0.11	0.16	0.13	0.14
Return on assets	0.09	0.09	0.11	0.10	0.09
Return on equity	0.06	0.07	0.12	0.12	0.13
Earnings per share	RM3.33	RM3.26	RM3.49	RM3.26	RM3.14

**Required:**

(a) Discuss the major conclusions that can be drawn from this information about Mirzarii Maju Sdn Bhd's future. (6 marks)

(b) List FIVE additional information that would be helpful in your assessment of this company's financial condition and explain each of the additional information. (10 marks)

(c) Based on the preceding ratios, which aspects of the company do you believe should receive special emphasis in the audit? Explain. (4 marks)

**(Total: 20 marks)**

**Continued.....**

**QUESTION 3**

You are the auditor of Solid Fridge Sdn. Bhd. (Solid Fridge) that manufactures refrigerators. The company has recently seen keen competition and the company's sales dropped significantly.

The company needed RM 2 million for its working capital. Since the company was not successful in getting a loan from the bank it decided to use its overdraft facility. The interest on the overdraft is higher than the interest for loans.

The management are sure that the bank overdraft facility which is due for renewal next month will be renewed.

Since the company has not been paying their suppliers on time, some of major suppliers have withdrawn the credit facilities. This means the company must pay cash on delivery. Because of this situation the company's overdraft balance has grown substantially.

The management's cash flow forecast shows a significantly worsening position for the next twelve months.

The management is confident that their sales department will come out with new strategies whereby the sales will improve significantly. Therefore the company is a going concern. As such they do not intend to make any disclosures in the accounts regarding going concern.

**Required:**

(a) Describe the factors that indicate that the company is not a going concern and explain why these could impact upon the ability of the company to continue trading on a going concern basis.

(12 marks)

(b) Describe the audit procedures that the auditor of the company should carry out to assess whether or not the company is a going concern.

(8 marks)

**(Total: 20 marks)**

**QUESTION 4**

Some critics argue that the quality of audit work performed by auditors have deteriorated since the decision in the Caparo case in 1990. In the 'Caparo Industries plc. v. Dickman & Others' case in 1990, the House of Lords in England decided that the auditors owed no liability to third parties for negligence.

**Continued.....**

**Required:**

(a) Discuss the decision in the Caparo case and state the parties that can successfully sue the auditor for negligence. (3 marks)

(b) Explain the reasons why the Caparo case judgement may lead to deterioration in the quality of the auditor's work. (7 marks)

(c) Describe the measures which have been introduced and the factors that have led to an increase in the independence of the auditors and an improvement in the quality of their audit work. (10 marks)

**(Total: 20 marks)**

**QUESTION 5**

Your audit firm has been appointed as external auditors to a large public listed company. The company intends to keep its audit costs down and requests you to co-operate with company's Internal Audit Department. The company wants the external auditors to rely on some of the work performed by the internal auditors.

During the year, the company has carried out a major internal restructuring in its information services function and the internal auditors have been closely involved in the preparation of plans for restructuring, and in the related post-implementation review.

**Required:**

(a) Explain the extent to which your audit firm will seek to rely on the work of the internal auditors. (4marks)

(b) What information will your firm seek from the internal auditors, in order for you to determine the extent of your reliance? (6marks)

(c) Explain the circumstances in which it would not be possible to rely on the work of the internal auditors. (4 marks)

(d) Explain why it will be necessary for your firm to perform its own work in certain audit areas in addition to relying on the work performed by internal audit. (6marks)

**(Total: 20 Marks)**

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